MAESTRO
Growth Fund

PRESCIENT
LIFE LIMITED

INVESTMENT OBJECTIVE
The Fund's objective is to produce above-average long-term returns whilst simultaneously assuming less risk than inherent in the market itself. The Fund is balanced across multiple asset classes and is subject to the restrictions of Regulation 28 of the Pensions Funds Act. A conservative investment philosophy is adopted however this still may lead to volatility of returns in the short term (i.e. 12 to 18 months).

FUND BENCHMARK (BMK)
The Fund measures itself against a benchmark consisting of 60% All share Index, 20% All bond Index (ALBI), 10% Short term fixed income (STEFI) index and a 10% global benchmark.

LEGAL STRUCTURE
The Fund is a pooled portfolio on the Prescient Life Limited balance sheet. The appointed portfolio manager of the Fund is Maestro Investment Management (Pty) Limited, an approved Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act, operating under licence number 739. Prescient Life Limited is a linked insurer governed by the Long Term Insurance Act. Prescient Life Limited issues investment linked policies. This Fund operates as a white label under the Prescient Life Licence.

FEE STRUCTURE
The annual investment management fee is 1.5%. The fee is inclusive of all underlying managers' fees, platform and administrative fees. In the case where the Fund is accessed and used as a Preservation Fund or Retirement Annuity an additional fee of 0.2% per annum is charged by Prescient.

FUND SIZE: R 84 060 072

LONG TERM INSURER
Prescient Life Limited
(Reg no: 2004/014436/06)

AUDITOR
KPMG Inc.

PORTFOLIO MANAGER
Maestro Investment Management (Pty) Ltd
(Reg no: 2000/028796/07)

ENQUIRIES
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8000
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The Maestro Growth Fund

Quarterly report for the period ended

31 December 2013

1. Introduction

This Report focuses on the investment activities of the Maestro Growth Fund during the recent past although it should be read in conjunction with previous editions of *Intermezzo*, wherein we documented some of the salient events in recent months. I also refer you to the *Market commentary – December 2013* report wherein we discuss in detail the market activity during the quarter.

2. The investment position of the Fund

The Fund's asset allocation is shown in Chart 1. Exposure to the equity market totalled 63.0% of the Fund, slightly up from 62.2% in September. Bond exposure increased slightly to 7.6% and offshore exposure increased marginally by 0.2% to end the quarter at 19.4% of the Fund. Cash represented 6.5% of the Fund down from 8.0% at the end of September quarter. Property exposure declined slightly to 3.5%.

Chart 1: Asset allocation at 31 December 2013

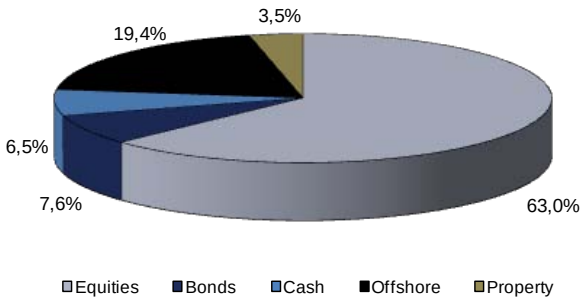
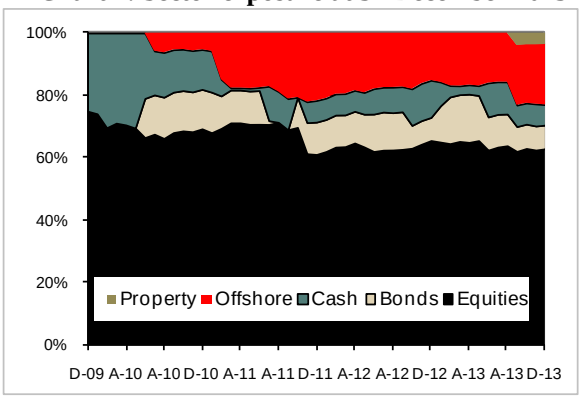


Chart 2 depicts the historical allocation to the major asset classes, expressed as a percentage of the total Fund.

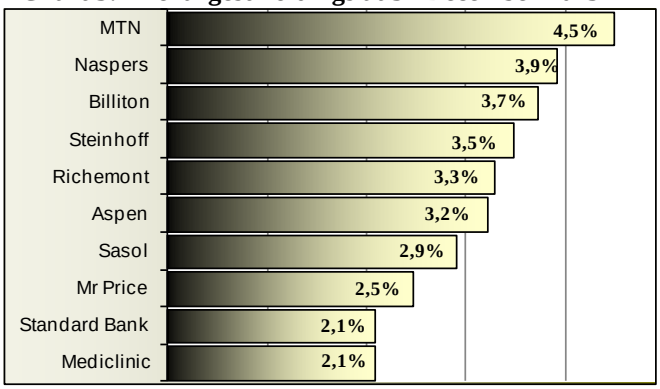
Chart 2: Sector exposure at 31 December 2013



3. Largest Holdings

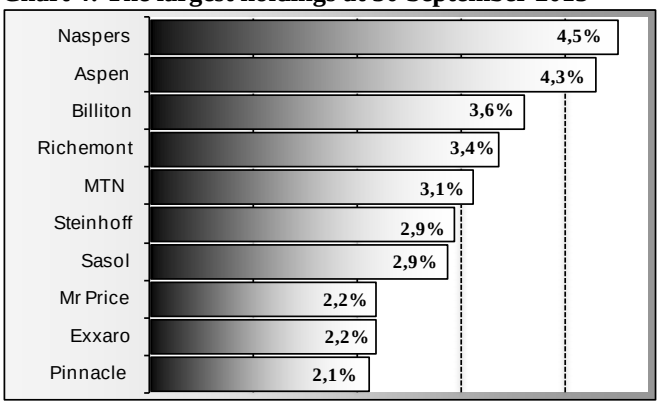
The largest holdings at 31 December are listed in Chart 3 expressed as a percentage of the Fund's equity portfolio.

Chart 3: The largest holdings at 31 December 2013



The largest holdings at the end of September 2013 are listed in Chart 4. During the quarter, Exxaro and Pinnacle were replaced by Standard Bank and Mediclinic in the top 10 holdings of the Fund. At the end of December there were 32 counters in the equity component of the Fund, one less than at the end of September. The ten largest holdings constituted 31.6% of the Fund slightly up from 31.1% in the previous quarter.

Chart 4: The largest holdings at 30 September 2013



4. Recent activity on the Fund

The investment objective on this Fund is to *achieve long-term growth through the assumption of moderate risk.* We would emphasise the "long-term" aspect of this objective; we are confident that the companies in which the Fund is invested will deliver long-term capital growth together with a steady increase in dividends over time.

The Fund has been designed in accordance with the rules and regulations that govern Regulation 28 of the Pensions Fund Act. It is not open to the retail public and can only be accessed through a company's Provident/Pension Fund or by individuals who have preservation money or wish to either transfer or purchase a Retirement Annuity (RA). These RA's can then be converted into living annuities when the time arises.

The salient features of the fourth quarter are discussed throughout the document. Before we focus on the returns of the Maestro Growth Fund it is appropriate to isolate from an asset allocation point of view what took place.

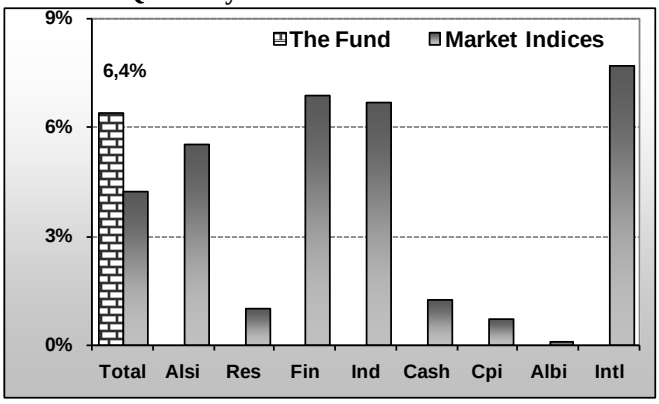
We are still of the opinion that domestic equities are the asset class of choice over the medium to long term. The Growth Fund's exposure to equities increased slightly by 0.9% and its bond exposure also increased by 0.8% during this last quarter of 2013. While the Fund's holding in fixed income namely cash decreased by 1.5% and Property decreased slightly by 0.3%.

A disproportionate amount of commentary is given to how the equity and offshore components of the Fund performed. The primary reason this is the case is due to the large allocation to these sectors within the Growth Fund. Asset allocation accounts for as much as 90% of an investments return which highlights the importance of these sectors.

5. The performance of the Fund

Chart 5 depicts the returns for the quarter against the major indices. ***The un-annualised return on the Fund during the December quarter was 6.4%*** which can be compared to the Maestro Growth Fund benchmark of 4.2%**.** I encourage you to read the commentary on the market movements during the quarter in the document entitled *Market commentary –December 2013.*

Chart 5: Quarterly returns to 31 December 2013



The international component produced a rand return of 10.7% and also increased 6.3% in dollar terms. The rand declined 3.9% during the quarter. ***The Fund's quarterly equity return of 7.0%*** can be compared to the All share index returns of 5.5%. We commented extensively in recent letters and *Intermezzo* about the state of the markets during the past few months and refer you to those publications to refresh your memory about the salient features of this period; you can find back copies of *Intermezzo* by clicking here.

There was little change to the momentum of markets moving from the strong third quarter into the fourth quarter of 2013. Despite the December announcement that the Federal Reserve (the Fed) would start reducing its bond buying program by $10bn per month, developed markets rose strongly. Locally, the All Share index continued to chug upwards, spurred to a large extent by a weaker rand. The rand weakened 3.9%, 5.9% and 6.4% against the US dollar, pound and the euro respectively during the quarter.

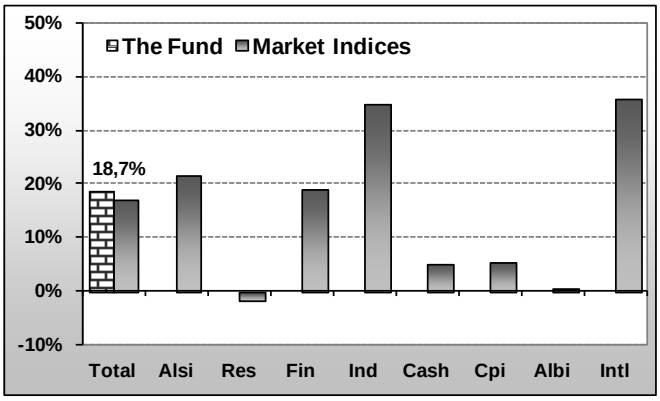
Resources remained out of favour amongst investors during the quarter and even the weakening rand was unable to significantly boost the basic materials index, as it rose only 1.0% in the fourth quarter. Financials and industrials on the other hand enjoyed yet another strong quarter rising 6.9% and 6.7% respectively.

What is not evident from Chart 5 is the performance of companies based on their size. With small-cap companies outperforming their mid-cap counterparts for the previous two quarters, it is not surprising that this trend turned around in the fourth quarter. The mid-cap index rose 5.7%, while the small-cap index gained 3.9%. The large-caps also rose strongly as the Top40 index gained 5.6% during the quarter.

Let us look at the December quarterly returns of some of the Fund's investments. The quarterly returns, excluding dividends, of the largest holdings in the portfolio were as follows: MTN 10.7% (it rose 6.5% in the September quarter), Naspers 18.0% (27.2%), Billiton 8.9% (17.0%), Steinhoff 26.2% (45.8%), Richemont 3.6% (14.7%), Aspen 2.3% (15.7%), Sasol 7.4% (11.0%), Mr Price 17.8% (3.2%),Standard Bank 8.0% (7.5%) and Mediclinic 2.3% (8.2%).

It is dangerous to read too much into the short-term returns of the Fund's portfolio. When selecting investments on the Fund's behalf we ensure that the long-term prospects of the companies are sound and that their management has the ability to deliver on their stated objectives. I would therefore encourage you to focus on the longer-dated returns when drawing any conclusions.

Chart 6: Annual returns to 31 December 2013



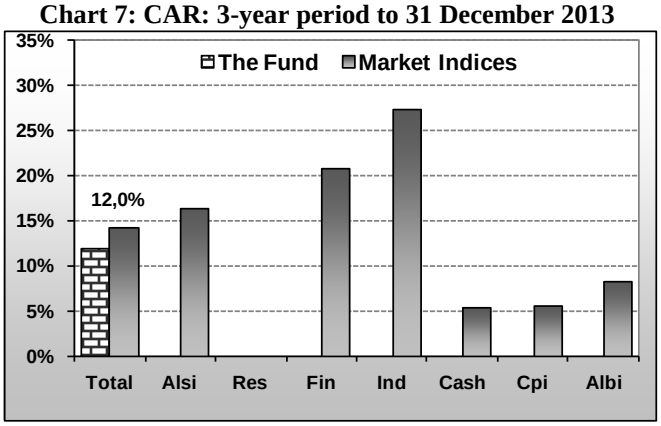
The annual returns to December are shown in Chart 6. ***The annual return of the total Fund for the year to December was 18.7%***. Inflation rose 5.4% over the year and the All bond index rose a meagre 0.6%. ***The annual return on its equity component was 23.8%***versus the All share index returns of 21.4%. The severe underweight position in basic materials relative to the All share index, and the fact that the Fund held no gold shares (the gold index declined 54.6% for 2013), assisted the returns over the past year. Not shown in the chart are the annual returns of large, mid and small-cap indices, which rose 22.8%, 13.0% and 26.3% respectively.

Chart 6 clearly shows the strong outperformance of the industrials index during the year. With the rand depreciating 19.0% against the US dollar during 2013, it is no surprise that there were strong performances from the companies with significant earnings offshore. These include Naspers which rose 101.8% over the past year, Steinhoff 64.5%, Aspen 59.0%, Richemont 57.3%, Mediclinic 38.6% and MTN 22.2%. Other companies that performed well in 2013 included EOH which rose 112.7%, Coronation 101.6%, OneLogix 79.0%, Grindrod 76.9%, Sasol 41.8% and SABMiller 36.8%. There were a few companies which disappointed, namely Kumba which fell 22.1%, Tiger Brands 17.9%, Exxaro 13.3% and Wilson Bayly Holmes 7.0%.

The compound annual return (CAR) of the Fund, shown in Chart 7, ***over the three-year period to December 2013 was 12.0%*** while the equity component returned 14.1% which can be compared to the All Share Index return over the same period of 16.4%. It is clear from Chart 7 which sectors drove the market higher over the past three years and it is quite remarkable that the basic material sector registered a *negative* return of 1.8% *per annum* over this period. Across the market cap spectrum, the large-cap index managed to maintain pace with the mid and small-cap indices, largely thanks to the industrial shares. The three-year compound annual returns of the large, mid and small-cap indices are 16.5%, 15.4% and 18.7% respectively. The respective

compound annual returns for the All Bond index and cash over this period were 8.3% and 5.5% respectively.

Chart 7: CAR: 3-year period to 31 December 2013



6. International component of the Fund

The activities of Central Park Global Balanced Fund are communicated via monthly Fund Summaries as are the positioning and performance of its portfolio. . I suggest you use the Central Park Quarterly Report as the primary document for the evaluation of Central Park's return as it is unaffected by timing and currency distortions . The returns to end-December of the Fund's international component, in rand terms, are listed in Chart 8 and the same returns in dollar terms are listed in Chart 9.

Bear in mind that the benchmark against which Central Park measures itself is a demanding one; it includes a 20% hedge fund weighting, which most of Central Park's peers do not include. Although global markets in general have been volatile during the past decade, hedge fund indices have been less volatile, which has supported the benchmark returns during most periods. This is worth bearing in mind when analysing the long-term returns shown in the charts.

The rebound in Central Park's performance that started during the September quarter continued in the December quarter. Investors' preference for developed versus emerging markets, which began earlier in the year, continued throughout the December quarter and assisted the Fund's performance. Midway through the year, we took the decision to down weight the Fund's exposure to emerging markets and increase our cash holdings, a decision that certainly aided the Fund's return during the December quarter. The equity component of the Fund, which at the end of the quarter constituted 59.1% of the Fund, was largely responsible for the Fund's outperformance relative to its benchmark. The equity component rose 10.8% during the quarter versus the MSCI World Index's gain of 7.6%. A lot of the gains were as a result of the Fund's core holdings that drove up the Fund's performance. The second reason behind Central Park's good showing in the December quarter lies in the underlying currencies the Fund invests in. You will be aware that though Central Park is a dollar denominated Fund (it reports in dollars), less than half (49.4%) of the Fund is actually invested in dollar denominated assets. 20.1% is invested in sterling, 13.1% in Swiss franc, 9.9% in euros and 7.5% is invested in rand assets. With the dollar being weak relative to the euro, franc and sterling during the December quarter, it enhanced the Fund's reported dollar return. The final driver of the Fund's returns during the quarter was the hedge Fund component. Bristol International, which constitutes 3.5% of the Fund, rose 17.3% during the quarter, which was a significant contribution to the Fund bearing in mind that the hedge Fund benchmark gained only 2.9%.

Chart 8: Global rand returns to 31 December 2013

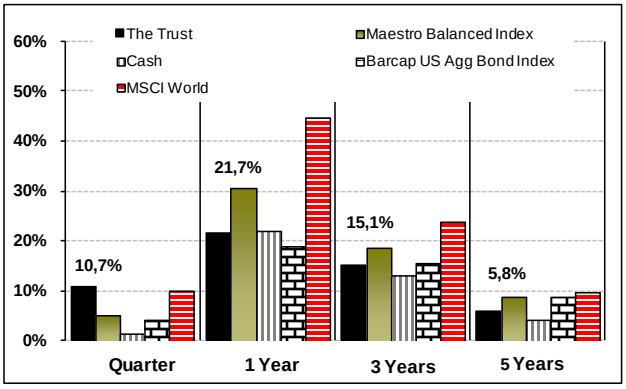
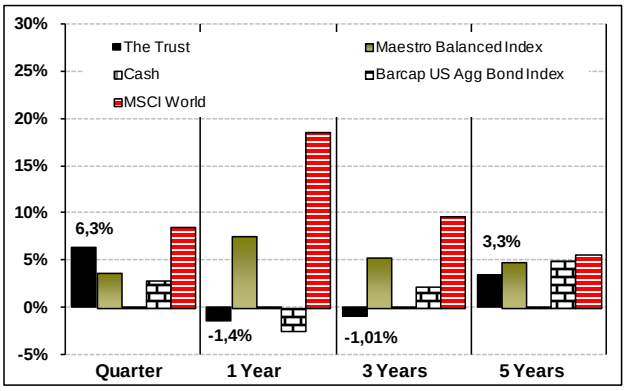


Chart 8 shows that Central Park rose 10.6% in rand terms during the December quarter and 6.3% in dollar terms as shown by Chart 9. The rand, which declined 3.9% during the quarter, proved supportive of local rand returns. The trend of higher rand relative to the dollar returns can be seen in Chart 8 and 9 over the past 5 years and vindicates the decision by local investors to diversify their investments out of the South African market to benefit from a weakening local currency.

Chart 9: Global dollar returns to 31 December 2013



7. Closing remarks

It is great to have enjoyed yet another year of good returns in the market after the strong performance in 2012. A risk that we at Maestro are keeping a close eye on this year is the slowing down of monetary easing by the Fed. Global markets have been addicted to the profound amounts of monetary stimulus that major central banks have been providing over the last five years. With the largest of them (the Fed) now clearly set on scaling back the stimulus, it is highly likely that both equity and bond markets will experience more volatility in 2014. We do not predict a financial collapse or a major crisis as a result of the reduction in stimulus; however it is highly likely that the relatively smooth ride that we enjoyed in the markets in 2013 will become a bit bumpier in 2014.

Overall, it is our view for the year ahead that the economic environment, namely a continued improvement of the global economy, should remain supportive for markets and hence our conservatively optimistic view for 2014. Saying this, company and market valuations are not cheap and earnings growth is essential for investors to enjoy another year of good returns. We will consequently retain our current strategy and investment view, which has worked well in the past and has generated good risk adjusted returns for our clients.

On behalf of the whole Maestro team, I will end by expressing my thanks to you for your support throughout last year. I am glad that the portfolio enjoyed a profitable year in the markets and we will continue to do all we can to ensure that the assets are positioned to generate substantial risk-adjusted, long term returns.

As usual, we are here to be of assistance to you, so please do not hesitate to call on me if ever you wish to discuss anything about your portfolio in further detail.

David Pfaff
On behalf of the Maestro team
18th February 2014